

## Employee turnover is costlier than you think

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With unemployment hovering at the lowest rates since 1969, recruiting has become a major concern for companies. They are struggling to find qualified candidates for job openings, and recruiting methods are growing increasingly creative.

No longer relying on the “post and pray” method, companies are holding happy hours; texting potential candidates; and reaching out via Snapchat, Facebook and Instagram. Increasingly, the focus is not just on recruiting, but on “sourcing” candidates—locating those pipelines where potential candidates can be found and developing relationships.

At a conference I recently attended, for example, a recruiter talked about struggling to find hairstylists for a retail chain specializing in haircuts for kids. After researching, he found the website most often visited by hairstylists is Pinterest, so Pinterest became his newest recruitment source.

Interestingly, one important source for recruiters is their relationships with former employees. Recruiters work to maintain those relationships, in the hope those employees will become “boomerangs” and return to the company at some point.

The advantages of rehiring employees are self-evident: They know your business and culture and the training curve will be pretty short. Also, having found the grass isn’t necessarily greener elsewhere, they might be more engaged than they were the first time around. They might feel it’s a shame they ever left in the first place.

The question is: Why did they?

Conventional wisdom today is to assume millennials in particular are just frequent job changers, and there’s nothing a company can do about it. But conventional wisdom is so often wrong, and in this case, it can become a self-fulfilling prophecy: Employers assume young workers are bound to leave quickly, so they don’t do anything to retain them. It becomes an endless cycle of recruiting and replacing.

There is no single cause for employee turnover, but a recent survey by Payscale indicates the strongest incentive to leave is salary. Among respondents who were asked why they left a job, 25% indicated the primary reason was to obtain higher pay. A distant second at 16% was, “I am unhappy at my current organization.”

Any manager who has tried to obtain approval for an unscheduled raise in order to retain an employee knows all too well the frequent response: “We just can’t afford it.” The irony is, that same company often ends up paying more to find a replacement. According to Gartner’s Global Talent Monitor, employers typically offer a 15% pay increase to new employees who join them.

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Signing bonuses—once limited to top executives—have grown increasingly common and only add to a company's overall compensation cost.

Perhaps the question isn't whether you can afford to increase the salary of a current employee, but whether you can afford to replace that individual.

Adding to the cost of a new employee is the inevitable decrease in productivity as the new employee learns your systems and culture. Consider this startling finding by Matthew Bidwell, associate professor of management at the Wharton School: It takes three years for outside hires to perform as well as internal hires in the same job. Even more surprising, he found that it takes internal hires seven years to earn as much as new hires are paid. Seven years. From a purely economic standpoint, simply accepting the presumption that turnover is unavoidable can be costly. Clearly, retaining the employees you have or relying on promotions from within can often be the best financial move for an organization.

The first step is to ask yourself what you are doing to retain talent. Too many companies—especially smaller ones—default to recruiting mode rather than posting or publicizing job openings within the organization. Creating a culture in which openings are shared and current employees are encouraged to apply can not only save you money, it can be motivational to employees and create a climate of growth.

Even if you don't have anyone on staff who has the skills you are looking for, your employees might know someone who does. Employee referrals are typically good hires because you save the cost of recruiting, plus your employees actually do the initial screening for you. And let's face it, most employees don't want to look bad in front of their employer by referring someone who isn't going to work out.

Finally, you need to have a climate of open communication. Make it your business to know how your employees feel about your company, as well as what needs to be done to keep them.